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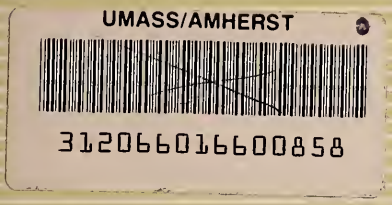

1991-1992 ANNUAL REPORT OF THE MASSACHUSETTS COMMUNITY ECONOMIC DEVELOPMENT ASSISTANCE CORPORATION

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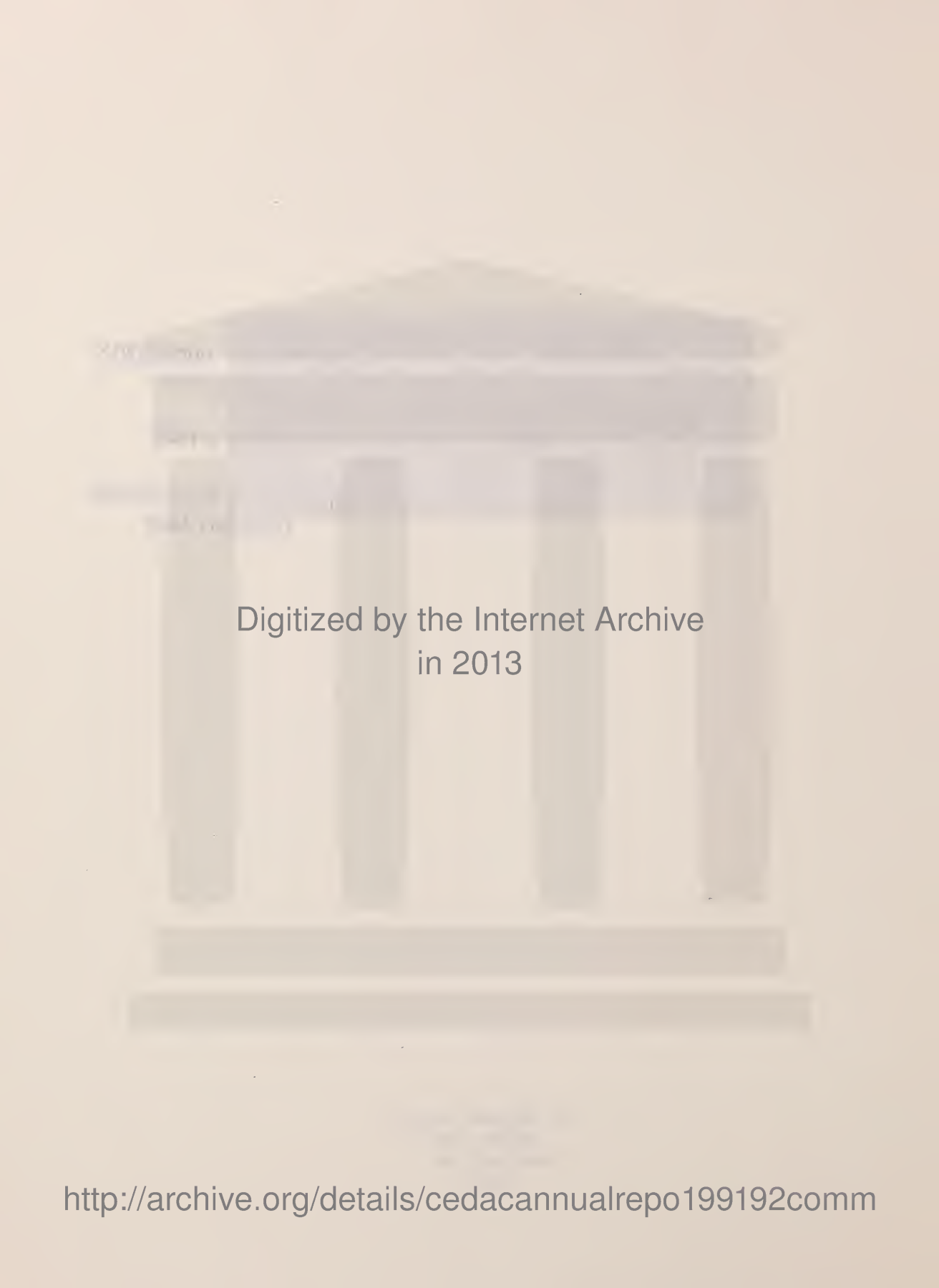
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Statement from the Chairman and the Executive Director

During the 1991-1992 fiscal year, the Community Economic Development Assistance Corporation (CEDAC) continued to play a key role in providing both technical assistance services and financial resources to non-profit development organizations throughout the Commonwealth. Despite an environment in which it was far more difficult to both conceive and close affordable housing projects, CEDAC provided development assistance to 51 organizations to advance planning on 65 projects containing 4,620 housing units during fiscal years 1991-1992.

Thirteen projects closed on construction loans adding 931 affordable housing units to the state's inventory. The summary of program highlights listed below is illustrative of the productivity of CEDAC's efforts.

CEDAC also continued its programmatic focus on provision of staff consultation and pre-development loans to the "expiring use restriction" properties, federally financed private rental housing developments to which HUD will provide financing incentives to facilitate the conversion of these properties to resident or non-profit ownership.

CEDAC provide key underwriting services to EOCD for the Housing Innovations Fund (HIF), which this year closed on 34 more projects, providing 904 housing units of which over 85% were affordable to lower-income families and individuals.

And in the area of child care, CEDAC continued its collaboration with the United Way of Massachusetts Bay, local foundations, and the Ford Foundation to provide loans to non-profit day care centers to expand or upgrade their capital facilities. In FY 91-92, CEDAC made 16 loans totalling $582,500, for centers serving throughout the Massachusetts Bay region.

Linda L. Conroy
Chairman

Carl A. Sussman
Executive Director

Technical Assistance

CEDAC's hallmark continues to be its willingness to provide technical assistance and predevelopment loans at the earliest phases of project planning. Scores of cash-poor nonprofit organizations, even those without prior development experience, have been assisted in developing highly successful housing developments with CEDAC's assistance.

- BOWDOIN LODGING HOUSE Amid the declining supply of SRO housing. the Boston Citywide Land Trust made a dramatic move to preserve this type of housing by acquiring 122 units on Boston's Beacon Hill. With the Trust's rehabilitation program underway, the residents, many of whom are persons with AIDS or Department of Mental Health clients, with continue to have a stable living situation close to the services they depend upon.

- BROWN-KAPLAN TOWNHOUSES Lena Park Community Development Corporation has chiselled one of the most attractive new neighborhoods in the state out of an overgrown series of vacant lots in Roxbury. This limited equity cooperative contains 60 units. It is a source of considerable community pride both because of its outstanding design and because of Lena Park's reliance on an outstanding Afro-American development team.

- THE PINES AT "O" STREET In Turner's Falls, the Franklin County CDC has successfully completed another homeownership project with ten units. Providing the opportunity for affordable first-time home-buyers has been a major focus for the CDC's residential development program; a mission they have carried-off with strong design and site planning.

- COLLEGE HIGHWAY APARTMENTS An Easthampton based nonprofit, relied on federal funds to build 40 units of housing for the elderly in collaboration with the Housing Allowance Project. Despite government cost-containment guidelines, College Highway Apartments is a newly-constructed facility with spacious rooms, large windows, and space for community activities.

- FOREST HILLS TENANT COOPERATIVE The Jamaica Plain Neighborhood Development Corporation has made a mark for itself helping tenants threatened with gentrification on the one hand and the dangers of drug trafficking on the other to make a stand. This 10 unit scattered site limited equity housing cooperative has resulted in improved housing conditions, homeownership and a more stable neighborhood.

- SUPPORTIVE SRO HOUSING FOR WOMEN Cambridge YWCA took advantage of its location and the strong real estate market in the late '80s to sell development rights on some of its property. It used the proceeds of that transaction along with other development resources to renovate 107 single room occupancy units it operates in Central Square.

Expiring Use Restriction (EUR) Preservation

During the next decade, the owners of over 360,000 units of privately owned rental housing in the U.S., financed with federally-assisted mortgages, will be eligible to prepay those mortgages and to convert that housing from low- and moderate-income use. The potential impact is particularly acute in Massachusetts, which has 32,156 of the affected units.

The term "expiring use restrictions" or "EUR" is used to describe the problem because the prepayment of these HUD mortgages extinguishes mortgage covenants which restrict the owner to lease units only to low- and moderate- income households. Without these use restrictions owners could change the use from rental to condominium, and from affordable to market rate housing.

Because of the sheer number of units at risk, CEDAC identified the EUR problem several years ago as the most crucial housing issue of the coming decade. In concert with other state agencies, such as EOCD, MHP, and MHFA, tenant organizations, and interested non-profit developers, CEDAC began to explore tenant and non-profit acquisitions of these properties as part of a state strategy for preserving this affordable housing stock.

CEDAC played a key role in structuring the successful acquisition at Clarendon Hill Towers in Somerville and is also working with tenant and non-profit organizations at Castle Square in Boston's South End, Allen Park in Springfield, ETC Associates in Boston, and Commonwealth and Glenville Apartments in the Brighton neighborhood of Boston.

The passage last October of Title VI of the National Affordable Housing Act of 1990, also known as Low-Income Housing Preservation and Resident Homeownership Act (LIHPRHA), has lent new impetus to the sale of many of these developments to tenant and local nonprofit organizations. Title VI not only prevents

most (but not all) owners from prepaying their mortgages, it extends the low- and moderate- income rental use for the remaining useful life of the buildings. In return, the government is offering owners two ways to realize the same financial return as they would have realized had they been allowed to prepay their mortgages and change the use.

This solution to the EUR problem will cost the Federal government $27.5 billion over the next decade, preserve most of the units, allow for needed rehabilitation, and expand ownership opportunities for tenant and non-profit organizations. Owners may now retain ownership and, in return for extended affordability, will receive substantial federal financial incentives. Alternatively, owners can sell, and an advantage is given to "priority purchasers" - non-profit development organizations, resident associations, and public agencies - who will in turn, be obligated to preserve the affordability for the project's remaining useful life. Once again, such transfers can be achieved with federal financial assistance.

Because Title VI confers this preferential purchaser status on CEDAC's constituency of non-profit developers and resident organizations, CEDAC sees substantial opportunities for non-profit ownership and management.

The National Affordable Housing Act of 1990

The Low-Income Housing Preservation and Resident Homeownership Act (Title VI of the National Affordable Housing Act of 1990) eliminates the right of owners of most low-income housing financed with U.S. Department of Housing and Urban Development (HUD) mortgages to prepay those mortgages without HUD approval.

In return, the act gives the owner three options:

- terminate the existing affordability restrictions with HUD approval in certain circumstances;
- extend the restrictions in exchange for financial incentives from HUD;
- sell the property to a purchaser who receives financial incentives from HUD to preserve the housing for low-income use.

The first step an owner must take is to file a Notice of Intent with HUD. This notice cannot be filed earlier than two years before the date on which the owner would be eligible to prepay his mortgage - usually the 20th year of the year of the 40 year mortgage. The Notice of Intent does not require the owner to make an irrevocable election as to which of these three options he intends to ultimately pursue, but initiates the process for making that decision.

This notice signals HUD to commission an appraisal of the project's fair market value. If the owner eventually decides to retain ownership, the property will be appraised for its value as market rate rental housing. If the owner wants to sell, the appraisal will be based on the highest and best use of the property. Since the owner's decision is not final at this stage, HUD will need to determine both values; the values resulting from these appraisals are referred to as "Extension Preservation Values" for owners planning to retain ownership and as "Transfer Preservation Values" for sales.

HUD next determines the equivalent "Preservation Equity," basically the values derived from the appraisal minus existing debt and mortgages secured by the property. Finally, these values are translated into "Preservation Rents" - a hypothetical construct which HUD then compares with an upper allowable rent level essentially equal to the income stream generated by project rents set at 120% of Section 8 Fair Market Rents for the area. If the preservation rents are within that limit, than the owner may proceed to either incentives to retain ownership, or to voluntarily sell the property to a priority purchaser.

The most important point of this exercise is to determine whether the preservation rents exceed these allowable upper federal rent limits. If they do, the owner who may have sought to retain the property will receive a lower rate of return thus making a sale more desirable. An owner is not entitled to receive the preservation rents. Actual rents will be derived after negotiations between the owner or buyer and HUD.

If an owner decides to pursue a sale, he must file a second Notice of Intent with HUD, declaring that this is his course of action. This notice then triggers a 12 month marketing period within which only priority purchasers may attempt to negotiate a sales agreement with the owner for a sales price up to the preservation value. Under any scenario, if a sale agreement with a priority purchaser cannot be consummated within 12 months, the owner has another three months to reach

agreement with a "qualified purchaser," which includes for-profit entities who agree to preserve the housing for low-income use for its remaining useful life.

However, the owner is entitled to prepay if this extended marketing period fails to produce a buyer or if the buyer fails to consummate the purchase. Should an agreement be reached, HUD is required to provide financial incentives to the purchaser sufficient to enable the purchaser to pay that price, subject only to appropriation of sufficient funding to HUD.

Incentives may include Section 8 rental assistance for all tenants with incomes below 80% of median income; Section 241 mortgage insurance for up to 95% of the preservation equity and 90% of the rehabilitation cost; Flexible Subsidy loans, and, for priority purchasers, grants equal to the present value of ten years of Section 8 Fair Market Rents. In general, such a sale ought to guarantee low-income preservation for the remaining useful life of the project and reimburse priority purchasers for their transaction costs.

Thus the new legislation creates a powerful tool for preserving the EUR housing stock with a well-funded feral entitlement program. However, the risk of prepayment remains. Without technical assistance or the funds to satisfy the statutorily required equity contribution under the section 241 insurance program, most priority purchasers will be prevented from bidding on EUR properties. It is hoped that provisions contained in a state housing bond bill currently pending on Beacon Hill will provide these much needed resources.

Castle Square Tenants Near Victory

Residents of the Castle Square HUD expiring use restriction project in Boston are in the final stages of negotiating the conversion of this distressed property into a rehabilitated development in which the residents have a significant participation in ownership and management, and a guarantee of future full ownership.

Castle Square is a 500 unit Section 221(d)(3) development located on the borderline of Boston's South End and Chinatown communities. The residents are low and moderate income families of Asian American, African American, Hispanic and White descent. It was built over 20 years ago on urban renewal land, many of the current residents have lived there since initial occupancy, and the site contains a 400 car parking garage and an A & P food store, as well as other commercial space.

During the summer of 1987, before the passage of the original federal preservation law, the Castle Square Tenant Organization, Inc. (CSTO) became aware that the owner, an affiliate of the Druker Company, had executed a Purchase and Sale Agreement to sell the property to a limited partnership organized and controlled by the Winn Development Company (Winn). The price was to be over $21 million. CSTO was concerned that the federally subsidized mortgage might be prepaid and that the developer might try to market the units as condominiums, in what was then a strong market.

Because of the large amount of public resources required, and for other reasons discussed below, tenant support was necessary as a practical matter for the contemplated sale to be feasible. CSTO, which has achieved a strong multicultural, multiracial membership representing the diverse composition of the development, met with Winn and Druker in the fall of 1987. Winn agreed from the outset that long term affordability would be preserved. Winn also agreed to sell to a tenant controlled entity in 10 to 15 years and to give CSTO a role in management. Winn indicated that it had HUD commitments for 500 units of Section 8 Loan Management financing and for $5.5 million in Flexible Subsidy funds. In addition, Winn had obtained preliminary commitments for $2 million in state weatherization funds and for $ 2 million from the City of Boston for improvements to City owned infrastructure in the development. The proposal included equity syndication, using Low Income Housing Tax Credits, with Winn as the sole general partner. As originally conceived by Winn, CSTO had no role in the ownership entity.

Deborah Backus, co-chair of CSTO believes strongly that "tenants themselves should be directly involved in all negotiations affecting their homes and their lives. We should call the shots in conversations with HUD, developers, architects, and contractors, and we expect our technical assistance people to support us in this approach." To assist in its negotiations with Winn in this spirit, CSTO assembled a technical team bringing to the table on its side financial, legal (both advocacy and real estate oriented), organizational and architectural skills. CEDAC is providing the financial analysis as well as assisting with the intricacies of HUD's preservation regulations. Greater Boston Legal Services and Brown, Rudnick, Freed and Gesmer are CSTO's legal counsel. The Boston Affordable Housing Coalition is providing organizational and strategic planning services, and the architect services were provided by Hezekiah Pratt & Associates.

CSTO determined that a number of issues had to be resolved before it would agree to support the sale proposal: a clearer definition of the provisions for long term affordability; funding for an eventual tenant buy-back of Castle Square from the limited partnership which will initially own the project; better specification of the tenant management role; an acceptable rehabilitation plan, operating budget and future reserves; a source of technical assistance funds; the disposition of the parking garage (which, although the seller will retain ownership, was originally dedicated to the tenants' use); the continuation of the A & P food store; and the contribution of the seller to CSTO's preservation effort.

The negotiations over these issues continued for two years, during which the parameters of the development changed significantly in CSTO's favor. However, an impasse was reached over the disposition of the garage (which Druker wanted to retain for redevelopment) and over the level of Druker's financial contribution to CSTO's efforts. The Boston Redevelopment Authority was asked by CSTO to mediate a resolution, and in May, 1990, a landmark Project Agreement was executed among CSTO, Winn and Druker, and the BRA voted the approvals which were needed to resolve the zoning and land use issues under its jurisdiction, all conditioned on the requirements of the Project Agreement.

The Project Agreement provides that: CSTO will be a co-general partner with Winn in the ownership entity; CSTO will become sole general partner after 5 to 10 years (with funds provided under the Agreement); CSTO will have the right (and a $1.5 million fund) to buy out the limited partners beginning after 12 years; CSTO will be involved in increasing management responsibilities, and will receive appropriate training; CSTO will receive a $1.2 million Tenant Equity and Repair Fund (TERF) from the seller; CSTO's technical assistance expenses will be paid as a project expense; enforceable use restrictions for long term affordability beyond the federal requirements will be established; the levels of repairs, project security and operating budgets are all significantly increased in accordance with CSTO's concerns; and CSTO will receive 150 parking spaces in the garage which is being retained by the seller, as well as in any redeveloped garage, and will have project review powers regarding any such redevelopment.

The project's financing has been approved by the Massachusetts Housing Finance Agency. Although HUD has reduced CSTO's buyout fund from $1.5 Million to $880,000, the total funds available to CSTO, over $2 Million, are unprecedented. With the exception of a HUD subsidy layering analysis which has not yet been

resolved, all key aspects of the proposal have also been approved by HUD. The Castle Square project illustrates how tenants can have a major impact on a proposed sale to a third party, especially when the tenants have specific leverage points and are able to obtain the necessary technical support. Considering that the project's history spans a time interval beginning before the enactment of the first federal preservation law (ELIHPA), and continuing after the passage of its replacement, Title VI of the Cranston Gonzalez National Affordable Housing Act, it also illustrates how difficult it can be to craft a unique development solution in an environment of regulatory instability.

Housing Innovations Fund

Secretary Mary Padula of the Executive Office of Communities and Development spent her first day on the job with other dignitaries hurling bricks at the windows of an old school in Pittsfield. The ritual launched the demolition phase of rehabilitation for the Redfield School conversion. Berkshire Housing Corporation, a regional non-profit housing development organization, is developing the abandoned structure into twelve units of housing for parenting teens using subordinated financing from the Housing Innovations Program (HIF).

The project is typical of those EOCD has helped with HIF financing during that program's three and a half years of operation. CEDAC has worked closely with EOCD in underwriting and servicing HIF loans. The collaboration has produced a program unique in its ability to reach smaller projects serving especially needy populations.

- The typical HIF project contains 25 housing units involving between $8,000 and $9,000 per unit of HIF funding.
- EOCD has made commitments to finance 120 projects which will produce 2,800 housing units; of these, 67 have already closed HIF loans producing 1,730 units.
- During FY 91-92, CEDAC closed 34 HIF loans creating 904 housing units and made funding recommendations to EOCD involving 44 projects

- Seventy-seven nonprofit developers have secured HIF funding commitments to develop housing in 47 different municipalities across the state.

- Among the 2,800 HIF-supported housing units completed or in the pipeline, 28% is for limited-equity cooperatives, 31% for special needs housing, 31% for single room occupancy lodging houses, almost 7% for transitional housing, and 3% for emergency shelters for the homeless.

- For each HIF dollar, borrowers have been able to leverage another seven dollars in additional financing.

DMR Belchertown State School Closedown

When the Department of Mental Retardation put out a Request for Proposals (RFP) for community based housing units in the summer of 1990 they knew they needed units quickly. Their job was to provide quality community care housing for developmentally disabled individuals who resided at the soon to be closed Belchertown school. Thanks to a capable non-profit development team, a simplified financing approach using the Housing Innovation fund and a creative leasing arrangement with DMR, one year later, 24 consumers moved into permanent, handicapped accessible housing in their communities.

The Housing Allowance Project (HAP), a regional non-profit housing organization based in Springfield, responded to the DMR RFP with a straightforward financing proposal. They would acquire and build on or rehab six sites using conventional financing from a local lender and Housing Innovation Fund financing. The simplicity of the financing mechanism was important because the units needed to be on line quickly. HAP's proposal was successful and they acquired the sites, assembled the financing and built or renovated the units to meet DMR's handicapped accessibility requirements in record time.

The Housing Innovation Fund (HIF), administered and underwritten by CEDAC for Executive Office of Communities and Development (EOCD), provided the important public equity necessary to make the project bankable. HIF provides flexible financing in the form of low interest, deferred payment subordinate loans for development of innovative projects such as limited equity cooperatives, single room

occupancy units and special needs and transitional housing. HIF has financed 2792 units with $22,262,972 in loans and leveraged $ 208,011,000 in specialized housing development since its inception 3 years ago. In this case, HIF lent 20% of the development costs, enough to encourage a local bank to lend the balance on favorable terms, when backed by a 10 year lease commitment by DMR.

Peter Gagliardi, the executive director of HAP, is pleased with the way the program has worked. "The model makes sense and is replicable" says Peter, adding that, " Without the Housing Innovation Fund, we wouldn't have been able to meet the banks' lending requirements. With HIF, we had a loan commitment in 30 days."

Another critical element in successfully packaging the Belchertown phasedown project was DMR's ability to enter into a long term lease with HAP (for 10 years) to assure lenders that the project would have steady cash flow to carry the mortgage. DMR has the advantage of knowing that they have secured a site for long term quality care and the non-profit developer has an assurance of steady cash flow to take to the bank. With the site secure, DMR contracts with a provider for service to the consumers. In this model, the non-profit developer (HAP) manages the property and assures DMR that it will continue to be maintained as a quality site for client care.

DMR is enthusiastic about the model. Project manager Mary Rogier feels that "HAP was able to produce quality sites that fit consumer needs perfectly, making it possible for consumers to live in the community where they had originally resided or where their families live. We're delighted with the product, how quickly it was delivered and especially how well it serves the needs of our consumers for community based housing." For DMR the outcome was positive not only for the consumers but also produced real savings for the department.

As part of the state's Facilities Consolidation program, DMR will need to move 600 of its special needs clients into community based programs in the next 18 months. To meet such an ambitious schedule, the department expects to rely on models such as the Belchertown phasedown project and on non-profit developers to carry it out. Facilities consolidation will also involve the placement of 700 Department of Mental Health clients. Non-profit developers can expect their knowledge of the community and their real estate packaging and financing skills to be called upon to help the Commonwealth carry out its special needs housing agenda.